

Naval Audit Service



Audit Report



Government Commercial Purchase Card Transactions at Naval Medical Center, San Diego

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N2009-0044
2 September 2009

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NAVAL AUDIT SERVICE
1006 BEATTY PLACE SE
WASHINGTON NAVY YARD, DC 20374-5005

7510
N2008-NMC000-0012
2 Sep 09

MEMORANDUM FOR COMMANDER, NAVAL MEDICAL CENTER, SAN DIEGO

Subj: **GOVERNMENT COMMERCIAL PURCHASE CARD
TRANSACTIONS AT NAVAL MEDICAL CENTER, SAN DIEGO
(AUDIT REPORT N2009-0044)**

Ref: (a) NAVAUDSVC Memorandum 7510 N2008-NMC000-0012.000 dated
20 November 2007
(b) SECNAVINST 7510.7F, "Department of the Navy Internal Audit"

Encl: (1) Status of Recommendations
(2) Pertinent Guidance
(3) Exhibit A: Order Confirmation
(4) Exhibit B: Order Detail Report
(5) Exhibit C: DD Form 250
(6) Management Response from Commander, Naval Medical Center San Diego

1. Introduction.

a. The purpose of this audit report is to provide the Commander, Naval Medical Center San Diego (NMCS D) with the findings and recommendations of the subject audit announced in reference (a).

b. We assessed controls over the NMCS D Government Commercial Purchase Card (GCPC) Program. We evaluated documentation that evidenced performance of six control activities used by the Government Accountability Office (GAO) in auditing Federal Government purchase card programs, to determine if a transaction is valid: (1) determining a legitimate Government need; (2) screening for required vendors; (3) independent receipt and acceptance; (4) establishing accountability over property; (5) cardholder (CH) reconciliation; and (6) approving official (AO) review. We also followed up on two areas of weakness identified by the Department of Defense Inspector

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General (DoDIG) at NMCS D:¹ closed accounts with credit balances and convenience checks.

c. We found no reportable condition in the area of screening. We also found that NMCS D closed their convenience check account and took the necessary actions to correct the internal control weaknesses noted by DoDIG in the area of closed accounts with credit balances. However, we found ineffective program monitoring and significant internal control weaknesses in the areas of legitimate need, receipt and acceptance, property control, cardholder reconciliations, and approving official reviews, such as:

- (1) Most transaction documentation was incomplete, inaccurate, not readily available for examination, and did not facilitate tracing the transaction from initiation and authorization, through its processing, to certification for payment;
- (2) Program separation of functions was not fully implemented;
- (3) Accountability for personal property, records custody, and use was not assigned to specific individuals; and
- (4) Review and approval processes were not sufficient.

d. These weaknesses occurred because management did not establish the necessary controls and provide the oversight required to prevent fraudulent, improper, and abusive purchases. The high turnover in the Agency Program Coordinator (APC) position was also a contributing factor. NMCS D had three APCs during an 18-month period, which was inclusive of our period of review. This inconsistency made maintaining the necessary oversight difficult for NMCS D. Although none of the transactions we reviewed were processed and approved under the cognizance of the current APC, we noted many positive changes that the current APC had implemented. For example, holding CHs accountable for maintaining purchase card documentation, suspending AO accounts when mandatory CitiDirect Program Audit Tool reviews were not performed, and sending statement certification reminders to AOs and CHs each month, are only a few that were implemented.

e. **Noteworthy Accomplishments.** As a result of this audit, NMCS D:

- (1) implemented policy that requires the use of either a purchase request (NMCS D Form 4270) or an Order for Supplies and Services (DD Form 1155) to document legitimate need;
- (2) established controls that included the screening of monthly transaction files for adequate documentation of receipt and acceptance by the APC support staff;
- (3) developed procedures for establishing accountability over ADP equipment and other

¹ DoDIG Report D-2007-043, "Controls Over the Army, Navy, and Air Force Purchase Card Programs," 10 January 2007.

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qualifying property; (4) established controls that included maintaining documentation of late certification and monitoring for repeat occurrences; (5) revised the CH GCPC Order Checklist to ensure approving officials review their CHs' monthly statements and CH billing cycle reconciliation packages are collected and audited by APC support staff; and (6) counseled appropriate command personnel regarding GCPC violations. For additional detail, refer to management's responses to Recommendations 1, 2, and 7 through 10, shown in Paragraph 6 and Enclosure 6 of this report.

f. Any requests for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (b). This audit report is also subject to followup in accordance with reference (b).

2. Reason for Audit, Scope, and Methodology.

a. Our objective was to verify that selected purchase card transactions were valid, and selected purchase card practices were compliant with DON policy. The audit took place between 6 December 2007 and 2 July 2009.

b. This audit focused on the purchase card controls and practices for 172 purchase card transactions made during January 2006 through June 2007. These transactions were identified as questionable with input provided by the Naval Audit Service Data Analysis Team. These transactions were reviewed for documentation to support performance of six control activities that GAO used in auditing Federal Government purchase card programs to determine if a transaction is valid: (1) determining a legitimate Government need, (2) screening for required vendors, (3) independent receipt and acceptance, (4) establishing accountability over property, (5) cardholder reconciliation, and (6) approving official review. In addition, we performed followup on recommendations made in DoD IG Report No. D-2007-043, "Controls Over the Army, Navy, and Air Force Purchase Card Programs," 10 January 2007, which identified weaknesses in the areas of convenience checks and closed accounts with credit balances at NMCS D.

c. We discussed the controls in place over purchase card transactions with personnel from the NMCS D. To evaluate the effectiveness of internal controls, we:

- Reviewed pertinent policies and procedures;
- Performed transaction analysis; and
- Physically sighted minor property for all applicable transactions.

d. This audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain

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sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We obtained transaction data from Citibank. We did not perform a formal reliability assessment of the data. However, we were able to establish data reliability for the information by comparing purchase card data with source documentation for the transactions reviewed. We did not find any material errors that would preclude the use of the data to meet the audit objective or would change the conclusion of this report.

3. Background and Pertinent Guidance.

a. The GCPC Program uses the purchase card to pay for all supplies and services at, or under, the micro-purchase threshold of \$3,000 for supplies and \$2,500 for services. Construction is not to exceed \$2,000 and training is not to exceed \$25,000. The purchase card is also used in conjunction with other contracting methods above the micro-purchase threshold for transactions and contract payments for: Purchase Orders and Blanket Purchase Agreement Orders valued at \$100,000 and below, or up to \$5 million for commercial items; Delivery Orders against Federal Supply Schedules valued at \$9,999,900 or below; Basic Ordering Agreements and orders under Indefinite Delivery Type Contracts valued at \$9,999,900 and below; delivery and task orders against competed Indefinite Delivery; and Indefinite Quantity contracts for orders valued at \$100,000 and below.

b. The NMCS D is a comprehensive military health care command and employs about 6,250 personnel. During the period January 2006 through June 2007, 131 CHs made 28,847 GCPC purchases valued at about \$38.4 million. Program personnel included an APC, an alternate APC, 4 military assistants, and 56 Approving Officials (AO) as of January 2008. APCs, AOs, and CHs must collectively provide reasonable assurance that purchase card transactions are appropriate and meet a valid Government need. Their duties include:

- Being the accountable official who is designated by the Commanding Officer (CO) and the responsible individual for the day-to-day oversight and management of the commands' Purchase Card Program; and
- Being the program's first line of defense against misuse, abuse, and fraud. The AO is responsible for ensuring proper use of the purchase card through approval of purchases and the timely certification of monthly invoices for payment;

c. The CH is a Government employee, designated by the CO, who is issued a GCPC card bearing the employee's name. The card can only be used by that employee for

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official purchases, in adherence with applicable regulations. The CH is responsible for: (1) ensuring that funds are available prior to purchase; (2) screening mandatory Government sources; (3) documenting the purchase transaction, and (4) resolving disputes directly with vendors/merchants.

d. NMCS D uses the Defense Medical Logistics Standard Support (DMLSS) automated information system for committing funds for purchase card acquisitions. Each NMCS D department has its own operational funding target, which is a level of approved funding for that department's specific expense account. Purchases recorded through DMLSS commit funds for that specific account. Once the purchase card billing statement is received and approved for payment, funds are disbursed by the Defense Finance and Accounting Service.

e. **Naval Supply Systems Command (NAVSUP) Instruction 4200.99, "Department of the Navy (DON) Policies and Procedures for the Operation and Management of the Government-Wide Commercial Purchase Card Program (GCPC)"** provides policy and procedures regarding the use of the GCPC program.² For paragraph references as well as other applicable guidance, refer to Enclosure 2.

4. Federal Managers' Financial Integrity Act. The Federal Managers' Financial Integrity Act (FMFIA) of 1982, as codified in Title 31, United States Code, requires each Federal agency head to annually certify the effectiveness of the agency's systems of internal accounting and administrative control. We identified internal control weaknesses in the areas of documentation to support legitimate need, segregation of duties, documentation to support receipt and acceptance, cardholder reconciliation, approving official review, accountability for resources, and program monitoring. In our opinion, the purchase card program weaknesses noted in this report may warrant reporting in the Auditor General's annual FMFIA memorandum identifying management control weaknesses to the Secretary of the Navy.

5. Conclusions and Summary of Audit Results. We found that the NMCS D closed their convenience check account and took the corrective actions necessary to correct the internal control weaknesses noted by DoDIG in the area of closed accounts with credit balances. In our testing of relative GAO control activities, we determined that there were no reportable conditions in the area of screening. However, we did find significant control weaknesses in the areas of legitimate need, receipt and acceptance, property control, cardholder reconciliations, and approving official reviews. Each of these areas is discussed in detail in the following paragraphs.

² NAVSUP Instruction 4200.99 superseded DON EBUSOPSOFFINST 4200.1A, effective 13 October 2006. This revision had no impact on our review.

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a. **Legitimate Need.** Documentation to support legitimate need was sufficient for 57 of 172 transactions reviewed, but was missing or insufficient for 115 transactions. Establishing a legitimate Government need provides reasonable assurance to the command that its resources are not being wasted. To accomplish this, NAVSUP 4200.99 Ch. 1, par. 6.e.(4)(f)1 requires that each purchase file contain a requisition.³ It should clearly describe the goods or services to be purchased, show funding approval, and be authorized by someone acting within the scope of their authority, prior to purchase.

i. In place of a single requisition document, NMCSO Internal Operating Procedures allow the collective use of two documents to support legitimate need: (1) an Order Confirmation, and (2) a copy of the Order Detail Screen Report from DMLSS. Each document contains some elements of a requisition, but not all of the necessary elements. Together, both documents contain all the elements of a requisition if properly prepared and executed.

- An Order Confirmation (Exhibit A) is generated by the CH and includes information such as the item description, vendor name, price, CH signature, authorizing official signature, and approving official signature. It does not include the name of the requestor or the requesting department (Exhibit A, B). We were told that the CH builds the Order Confirmation from information provided by the requestor. The requirement can be passed to the CH in various ways (e.g., a list, e-mail, even verbally), but this documentation was not retained in any of the purchase card files we reviewed;
- An Order Detail Screen Report (Exhibit B) is generated in DMLSS and includes item description, vendor name, price, and a customer identification code. The customer identification code identifies the requesting department (e.g., 07XRON is the Customer ID for Oncology Radiation). The Order Detail Screen Report does not identify who entered the information into DMLSS (Exhibit B). We were told that in many cases it may have been the CH.

ii. As noted above, the Order Confirmation is created by the CH and the Order Detail Screen Report may have been generated by the CH. Accordingly, management has no way to confirm that a separation transaction occurred between the initiation of the requirement and the placement of the purchase. This inherent weakness can be overcome only if the CH obtains written authorization for the purchase from the requesting department prior to the purchase. This authorization should be documented on the Order Confirmation (Exhibit A).

³ In addition to a requisition, we accepted as reasonable evidence various types of documentation, such as purchase requests, Abbreviated System Decision Papers, or other documents that identify an official Government need.

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iii. We reviewed transaction packages to determine whether sufficient documentation was present to show evidence of legitimate need. We found that NMCS D purchase card files included sufficient documentation to support legitimate need for 57 of the 172 transactions (34 percent) selected for audit. Forty-three of these transactions included appropriate documentation, such as a purchase requisition, which clearly showed the initiation of the requirement, described the goods or services to be purchased, and indicated proper authorization for the purchase. Fourteen transactions included both an Order Confirmation and an Order Detail Screen Report with appropriate and timely authorization for the purchase. Documentation was missing or insufficient for 115 of the 172 transactions (66 percent). Specifically:

- Twenty-one of the 115 transaction packages did not contain any documentation to support legitimate need;
- Fifteen of the 115 transactions did not contain appropriate authorization. Authorization for 11 transactions occurred after the order was given to the vendor, and four transactions did not have an authorization date; and
- Seventy-nine of the 115 transactions packages included only an Order Confirmation and therefore did not identify the requestor. Without this information, management has no way of knowing whether the correct individual authorized the purchase. In addition, for 12 of these transactions, the description field on the Order Confirmation was either blank (5 transactions) or generic (7 transactions) in comparison to the types of descriptions contained within accurate Order Detail Screen Reports (e.g., “books” versus the title of the books purchased). Without the detailed item description, the authorizing official (and later for those reviewing the transaction) would have a difficult time knowing what was being authorized for purchase. The following sample transaction illustrates the difficulty in establishing legitimate need when a transaction package only includes an Order Confirmation:
 - A transaction for \$1,618.52 contained only an Order Confirmation and therefore did not identify the requestor. The description field was blank and the vendor was a well known Web-based bookstore. Although a signature was present authorizing this purchase, we could not tell if the authorization was from someone acting within the scope of their authority because the requestor was not identified. Also, since no description of the items ordered was present, there was no basis for the authorization, or an audit trail documenting what item(s) had been authorized for purchase.

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iv. In our opinion, the use of a requisition or a document with all the elements of a requisition is the most effective way to demonstrate legitimate need and ensure the separation between the initiation of the requirement and the placement of the purchase. The collective use of both an Order Confirmation and an Order Detail Screen Report can serve as an alternate method, but we found few instances in which both documents were included in the transaction package and properly authorized (only 14 out of 172 transactions). This occurred because management did not provide the oversight necessary to ensure that legitimate need was properly documented and purchases were properly authorized. Further, in our opinion, many CHs and AOs believed that the information contained on the Order Confirmation was sufficient. Consequently, for 115 purchases, insufficient documentation was present to support legitimate need, and there was no documented separation of duties between the initiation of the requirement and the placement of the purchase.

b. **Receipt and Acceptance.** Documentation to show independent receipt and acceptance was sufficient for 44 of 172 transactions (26 percent) reviewed, but was missing or insufficient for 128 of 172 transactions (74 percent). NAVSUP 4200.99, Ch. 1, par. 6.d.(10)(d) requires independent receipt and acceptance of goods and services in order to provide reasonable assurance that the organization actually received the goods and services for which it paid. The NMCSD uses Material Inspection and Receiving Reports (DD Form 250) to document independent receipt and acceptance (see Exhibit C). To document receipt on a DD Form 250, the form requires two signatures: (1) a material handler's signature (see Exhibit C, block 22) to evidence receipt, and (2) an acceptance signature (see Exhibit C, block 21b) by someone in the department that generated the requirement. We also considered an independent signature on a sales invoice, packing slip, bill of lading, or any shipping or receiving document as acceptable evidence of the second signature.

i. The results of our analysis of the 128 transactions with missing or insufficient documentation found that:

- A total of 31 of the 128 transactions had no documentation included in the file (e.g., DD Form 250, signed invoice) that would indicate receipt and acceptance. These included multiple transactions for items such as computers, music compact discs, and blank rewriteable disks.
- For 64 of the 128 transactions, the DD Form 250 was only signed by a material handler (see Exhibit C, block 22). While a material handler's signature does provide assurance that the material was received at some point by the command, it does not fulfill the acceptance part of the criteria. The acceptance signature should show that the item was received by the department that generated the requirement.

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- For 8 of the 128 transactions, only the CH signed for acceptance of the item (see Exhibit C, block 21b). A clear separation of functions between the placement of the order and the receipt and acceptance of the order is an important internal control. These transactions did not exhibit that separation.
- For 20 of the 128 transactions, the acceptance signatures were not legible and there was no other means to validate the authenticity of the signature (e.g., printed name or other identification means). An illegible signature is insufficient unless it is accompanied by a printed name to identify the person who signed the document.
- For 5 of the 128 transactions, the description or dollar amount ordered did not match the vendor invoice or other documentation such as the vendor quotation. For example, the description and requisite approval for one transaction was for toner, yet a printer was received. For these transactions, a comparison of what was ordered to what was received was not performed and/or noted on receiving documentation.

ii. For transactions in which no evidence of receipt and acceptance was present, NMCSO had no assurance that the command actually received the goods or services for which it paid. This occurred because CHs did not follow established procedures and AOs did not provide the oversight necessary to verify the existence of receipt and acceptance documentation. For transactions in which a material handler's signature evidenced receipt, but either no acceptance signature was present or the signature was not verifiable (e.g., CH signature or illegible signature), NMCSO had no audit trail to show the ultimate destination/disposition of the purchased item. In our opinion, this occurred because many GCPC program personnel believed a signature by the material handler evidencing receipt was sufficient. No emphasis was placed on the need for the additional signatures to satisfy that the acceptance portion of receipt and acceptance was being met.

iii. For 91 of the 128 transactions, documentation to support legitimate need was also missing or insufficient. Consequently, no documented separation occurred between the three functions of initiation of the requirement, placement of the order/purchase, and receipt and acceptance as required by NAVSUP 4200.99, Chapter 2, paragraph 5.

c. **Property Control.** NMCSO was not effectively managing its inventory of automated data processing (ADP) equipment as required by BUMED policy. Secretary of the Navy (SECNAV) Instruction 7320.10A, "Department of the Navy Personal Property Policies and Procedures," requires accountable records be established and maintained when personal property is acquired at a unit cost of \$5,000 or more, as well as items that are below \$5,000 and are sensitive, classified, or meet all of the following three criteria: (1) pilferable, (2) critical to the activity's mission, and (3) hard to repair or

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replace. However, DON Commanders may issue supplementary instructions when necessary to address the specific requirements of their organizations. Navy Medicine Publication (NAVMED) P-5132 includes ADP equipment⁴ and digital cameras as accountable assets and requires that the assets be recorded on accountable property records within 7 days of receipt by the activity's Equipment Management Division.

i. We set \$400 as the threshold for our accountable property tests.⁵ We identified 8 transactions containing 90 items (valued at approximately \$114,839), which were vulnerable to loss or unauthorized use. These items included 89 computers and a digital camera. To determine if the medical center properly accounted for these items we: (1) checked for evidence that the item had been entered into the activity's property log and assigned an Equipment Control Number (ECN); and (2) attempted to sight the item to confirm that the asset was in the possession of the medical center. For three of the eight transactions, no link between the purchase document and property log (e.g., serial number or ECN recorded on the purchase document) was found, and we had to rely on individual recollection of the item location. Without the link, confirming that the physical asset is the same asset listed on the purchase document is often impossible. Although we could not be certain that the item sighted was the same one from the transaction, we gave the command the benefit of the doubt and considered the sighted item to be the item purchased if the requesting department had a like item in its possession that matched the make and model of the purchased asset.

ii. Our review of the individual property items showed that 26 of the 90 items (29 percent) were not recorded in the property records. These items included 25 computers and a digital camera.

iii. When we attempted to sight the 90 items, we could not locate 40 computers. Of the 40 computers that could not be located, 25 computers had not been recorded in property records (discussed in preceding paragraph), and 15 computers had been entered into the property log. Analysis revealed the following:

- For 25 of the 40 computers, the customer ID recorded on the Order Detail Screen Report was a generic customer identification code (N00259 is the customer ID for the acquisition department), and no acceptance signature was present on the DD Form 250, leaving no audit trail; and
- For 15 of the 40 computers, property management personnel told us that the computers had most likely been transferred to another department, but the property records had not been changed. We found that, aside from assigning

⁴ BUMED activities do not participate in the Navy Marine Corps Intranet (NMCI); as a result, each activity purchases its own ADP equipment.

⁵ GAO used a \$350 threshold for their Government-wide GCPC audit (GAO-08-333) dated March 2008.

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an ECN, little was done to maintain accountability over ADP equipment and other property by Equipment Management personnel.

iv. As required by DoD Financial Management Regulation 7000.14-R, Volume 12, Chapter 7, paragraph 070204.A, NMCSO needs to immediately designate a person to initiate and conduct an inquiry into the missing Government-owned property.

v. These conditions occurred because Internal Operating Procedures provided only limited guidance for establishing accountability for ADP equipment and other pilferable property acquired with GCPCs. Guidance did not: (1) identify which assets needed accountability; (2) describe the processes for establishing initial accountability at NMCSO; (3) delegate responsibility for establishing accountability; or (4) provide definitive timeframes for establishing accountability. In our opinion, since the CH is aware of all assets purchased with their purchase card, the CH should coordinate with NMCSO Property Management personnel to ensure property purchased is assigned an ECN. In addition, recording assigned ECNs on transaction paperwork would provide AOs, Property Management personnel, and property custodians a way to easily verify if all assets were properly accounted for and create an auditable trail.

vi. Weak controls over pilferable property increased the risk that NMCSO property could potentially be lost or stolen and the likelihood that duplicate or unnecessary purchases might occur. Also, since several computers could not be located, and the medical center did not have accurate information regarding the computer assignments, management did not have reasonable assurance that all sensitive Personally Identifiable Information (PII) and official Navy information was erased from the computers. In addition, management was unable to verify that Health Insurance Portability and Accountability Act information (HIPAA), one form of PII, was not compromised. Naval Audit Service Report N2009-0027, "Processing of Computers and Hard Drives During the Navy Marine Corps Intranet (NMCI) Computer Disposal Process," and a draft DoDIG report showed that classified and official information, and PII, was not erased from computer hard drives. The DON Chief Information Officer (CIO) Message DTG 291652Z, February 2008, provides policy and guidance for reporting known or suspected loss of PII.

d. **Cardholder Reconciliations and Approving Official Reviews.** CHs and AOs were not reconciling purchase card transactions in accordance with NAVSUP and NMCSO guidance. NAVSUP Instruction 4200.99 chapter 1, paragraph 6.g.(4)(f) requires the CH to perform a reconciliation and certification of the purchase card statement within 5 days of the close of the billing cycle. The AO review of the CHs' reconciliation, provides reasonable assurance to the command that the CH is performing the reconciliation in a timely and appropriate manner, and the CH is complying with all

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significant relevant controls to prevent or detect fraudulent, improper, and abusive purchases. The AO is required to review each CH transaction to make sure that:

- All supporting documentation is obtained and correct;
- CH reviews have been properly completed;
- Property has been received and properly documented; and
- All transactions were necessary and valid Government purchases.

i. Once the review is complete, the AO certifies the statement for payment. NMCS Instruction 4200.6, paragraph 3.f.(2)(a), requires that a copy of the certifications be included in each monthly reconciliation package along with a CH memo statement, CH reconciliation, purchase log, and supporting documentation for each transaction. This documentation allows the APC, management, and auditors to confirm the validity of the purchase in a timely manner.

ii. To determine the sufficiency of CH reconciliations and the thoroughness of AO reviews, we reviewed purchase files for completeness. We considered a file complete if the monthly reconciliation package included:

- A Purchase Card Statement;
- CH Reconciliation;
- CH Certification;
- AO Certification; and
- Primary supporting documentation, to include a requisition (or other acceptable documentation), an invoice, documented receipt and acceptance, and a dispute form (if applicable).

iii. Monthly reconciliation packages did not contain all the necessary documents evidencing CH reconciliation and AO review. Without these documents, no audit trail was present that would allow a reviewer to determine the sufficiency of CH reconciliations and thoroughness of AO reviews. We found that for the 172 transactions reviewed, 56 purchase files were missing one or more of the documents. Twenty-two of the files were without all four required documents. The remaining 34 files had one or more missing documents as shown in Table 1.

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Table 1: Missing Certification Documentation

Certification Documents	Files with Missing Documents of the 56 Files Audited
Purchase Card Statement	23
CH Reconciliation	43
CH Certification	32
AO Certification	40

iv. Primary supporting documentation (e.g., invoices) was also either missing or insufficient for the 172 transactions reviewed, as shown in Table 2.

Table 2: Missing or Insufficient Primary Supporting Documentation

Supporting Documents	Files with Missing Documents	Files with Insufficient Documentation	Total of 172 Transactions Audited
Requisition or Other	21	94	115
Receipt and Acceptance	31	97	128
Vendor Invoice	63	N/A	63

v. Some transactions were only missing one piece of information, and others more than one, but in all, documentation for 160 of the 172 transactions reviewed, was insufficient. As a result, no evidence that the CH actually performed a reconciliation of supporting documents to the billing statement was available, or that the AOs completed a comprehensive review before certifying the statements for payment. Without such evidence, NMCS D does not have assurance over the accuracy and completeness of reconciliations and reviews conducted, or the validity of certifications performed.

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selected 10 transactions that included 16 pilferable, personal use items (FOIA) XXXXX
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XXXXXXXXXXXXXXXXXXXXX(FOIA) Transaction files for all of the selected items had the
following criteria: (1) the description or quantity ordered did not match the vendor
invoice; (FOIA) XXXXXXXXXXXXXXXX(FOIA) and (3) the requestor was not
indicated. Since none of these items had been entered into the property log, we
considered an item sighted if the CH was able to show us an item that matched the make
and model of the purchased asset.

iv. Three of the 16 items (2 digital cameras and a Blu Ray disc player) could not
be located.(FOIA) XX
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v. This breakdown in multiple controls was due to a general inattention to required procedures by CHs and the AO, even after CE had identified the weaknesses. Moreover, if followup had been performed on CE's recommendation, the failure to perform the APC review would have been identified in a timely manner and corrective action to resolve the CH discrepancies could have been implemented. As a result, the command continued to be unnecessarily exposed to potentially fraudulent, improper, and abusive purchases.

6. Recommendations. We recommend that the Commander, Naval Medical Center, San Diego:

Recommendation 1. Establish controls and provide oversight to ensure each purchase card transaction has documentation that supports legitimate need and shows that the requirement was properly approved prior to purchase. (In our opinion, this is best achieved with the use of a requisition as required by NAVSUP Instruction 4200.99 Chapter. 1, paragraph 6.e.(4)(f)(1)).

NMCS D response to Recommendation 1. Concur. For each purchase, the NMCS D now requires the use of either an NMCS D Form 4270 (Purchase Request) or a DD Form 1155 (Order for Supplies and Services), to document legitimate need. Both documents contain all the elements of a requisition, as required by NAVSUP. The policy change was introduced to all program participants both verbally during a mandatory meeting and through written notice. The APC support staff screen monthly transaction files to ensure appropriate documentation is maintained for each transaction. The completion date was 24 March 2009.

Naval Audit Service comments on response to Recommendation 1. Action taken by NMCS D meets the intent of the recommendation, which is closed.

Recommendation 2. Establish controls and provide oversight to ensure independent receipt and acceptance is properly and completely executed and documented on the DD Form 250 (or on another document such as a vendor invoice) and shows that the purchased item was received by the department that generated the requirement. Proper and complete execution would include comparing what was ordered to what was received and accounting for any differences.

Subj: **GOVERNMENT COMMERCIAL PURCHASE CARD TRANSACTIONS
AT NAVAL MEDICAL CENTER, SAN DIEGO (AUDIT REPORT
N2009-0044)**

NMCS D response to Recommendation 2. Concur. The NMCS D will document independent receipt and acceptance on a DD Form 250 for equipment valued at \$3,000 and below, a DD Form 1155 for equipment valued over \$3,000, and DD Form 1149 from outside agencies and equipment transfers. Controls have been established to: (1) ensure the department that generated the requirement received and accounted for the purchased and (2) the Receiving Branch of the Material Management Department compares what was ordered to what was received and accounts for any differences. The completion date was 31 March 2009.

Naval Audit Service comments on response to Recommendation 2. In subsequent discussions with the command, we were told these controls included the screening of monthly transaction files for adequate documentation of receipt and acceptance by the APC Support Staff. In addition, the Material Management Department Head performs Quality Control inspections of receiving documentation on a daily basis. Actions taken by NMCS D meet the intent of the recommendation, which is closed.

Recommendation 3. Immediately establish property control for the 26 pilferable items that were not recorded in property record in accordance with DON and BUMED policies.

NMCS D response to Recommendation 3. Concur. The NMCS D Command Inspector General has initiated an inquiry into missing computers (discussed in Recommendation 4) and will include these 26 pilferable items in that inquiry. The target completion date is 1 October 2009.

Naval Audit Service comments on response to Recommendation 3. In subsequent conversations with command personnel, they indicated that even though the 26 pilferable items were sighted by both NMCS D and audit personnel during the course of the audit, the Command Inspector General decided to include those items in their inquiry as discussed in Recommendation 4. Actions planned by NMCS D meet the intent of the recommendation, which is considered open until the NMCS D Command Inspector General has concluded their inquiry and reported the results to the Naval Audit Service no later than 1 October 2009.

Recommendation 4. Immediately task the Command Inspector General to initiate and complete an inquiry into the 40 missing computers, in accordance with DoD

Subj: **GOVERNMENT COMMERCIAL PURCHASE CARD TRANSACTIONS
AT NAVAL MEDICAL CENTER, SAN DIEGO (AUDIT REPORT
N2009-0044)**

FMR, to include the potential HIPPA and PII implications, and report the results to the Naval Audit Service.

NMCSO response to Recommendation 4. Concur. The NMCSO Command Inspector General has initiated an inquiry into the 40 missing computers, to include the potential HIPPA and PII implications. Once completed, the results of this inquiry will be reported to the Naval Audit Service. The target completion date is 1 October 2009.

Naval Audit Service comments on response to Recommendation 4.

Actions planned by NMCSO meet the intent of the recommendation, which is considered open until the NMCSO Command Inspector General has concluded their inquiry and reported the results to the Naval Audit Service no later than 1 October 2009.

Recommendation 5. Immediately task the Command Inspector General to report PII breaches (in relation to the 40 missing computers), to serve as a point of contact for follow-up actions and individual notification, and to ensure that breach-related information is sent to the DON CIO Privacy Office.

NMCSO response to Recommendation 5. Concur. The inquiry discussed in Recommendation 4, regarding missing computers, will determine if there were any PII breaches. If it is determined there were PII breaches, the NMCSO Command Inspector General will serve as a point of contact for followup actions and individual notifications. The NMCSO Command Inspector General will also ensure that the breach-related information is sent to the DON CIO Privacy Officer. The target completion date is 1 October 2009.

Naval Audit Service comments on response to Recommendation 5.

Actions planned by NMCSO meet the intent of the recommendation, which is considered open until the NMCSO Command Inspector General has concluded their inquiry, and if it is determined there were PII breaches, performed all required followup action.

Recommendation 6. Immediately task the Command Inspector General to conduct an investigation into the missing cameras and Blu Ray disc player, and report the results to the Naval Audit Service.

NMCSO response to Recommendation 6. Concur. The NMCSO Command Inspector General has initiated an inquiry into the missing cameras and Blu Ray

Subj: **GOVERNMENT COMMERCIAL PURCHASE CARD TRANSACTIONS
AT NAVAL MEDICAL CENTER, SAN DIEGO (AUDIT REPORT
N2009-0044)**

disc player. Once completed, the results of this inquiry will be reported to the Naval Audit Service. The target completion date is 1 October 2009.

Naval Audit Service comments on response to Recommendation 6.

Actions planned by NMCSO meet the intent of the recommendation, which is considered open until the NMCSO Command Inspector General has concluded their inquiry and reported the results to the Naval Audit Service.

Recommendation 7. Develop procedures for establishing accountability over ADP equipment and other qualifying property that includes: (1) identification of accountable property items; (2) establishment of a serial number or ECN control process; (3) assignment of responsibilities to those involved in the process; (4) definitive timeframes for establishing accountability (within 7 days of receipt); and (5) continued oversight to ensure the process is working as intended.

NMCSO response to Recommendation 7. Concur. NMCSO has developed procedures (NAVMEDCEN SDIEGOINST 6700.7B) for establishing accountability over ADP equipment and other qualifying property. These procedures address all areas of concern. Specifically: (1) All purchases of information systems and equipment will flow through the Information Technology Management Department (ITMD) resulting in the identification of the accountable property before the purchase; (2) ADP and other items deemed pilferable will be specifically listed, updated, and tracked in DMLSS and all ADP equipment will also be assigned barcodes by ITMD; (3) the tracking and accountability of information systems and equipment has been assigned jointly to EM and ITMD; (4) Accountability will be established within 7 days of receipt; and (5) continued oversight is accomplished through a monthly reconciliation of data between DMLSS and ITMD's electronic tracking system. Walk-through inspections will be conducted at least quarterly to identify non-bar-coded equipment. The completion date was 5 May 2009 (date of publication).

Naval Audit Service comments on response to Recommendation 7. A review of these procedures by the audit team show they address all areas of concern. Action taken by NMCSO meets the intent of the recommendation, which is closed.

Recommendation 8. Establish controls and provide oversight to ensure cardholders perform monthly billing statement reconciliations in accordance with NMCSO and NAVSUP guidance and maintain documentation that evidences proper and timely completion of those reconciliations.

Subj: **GOVERNMENT COMMERCIAL PURCHASE CARD TRANSACTIONS
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NMCS D response to Recommendation 8. Concur. Written documentation of late certification is filed in the respective program participant's training file and monitored for repeated occurrences of improper or untimely completion of reconciliations. Written counseling further advises that frequent occurrences of disregard for program policy will result in permanent removal from the purchase card program. The completion date was 31 March 2009.

Naval Audit Service comments on response to Recommendation 8.

Actions taken by NMCS D meet the intent of the recommendation, which is closed.

Recommendation 9. Establish controls and provide oversight to ensure approving officials review their cardholders' monthly statements and maintain documentation that supports proper and timely AO reviews.

NMCS D response to Recommendation 9. Concur. The "Cardholder GCPC Order Checklist," implemented 31 August 2008, was revised in accordance with the recommendation. Cardholder billing cycle reconciliation packages are collected and audited by APC support staff. The completion date was 31 May 2009.

Naval Audit Service comments on response to Recommendation 9.

Actions taken by NMCS D meet the intent of the recommendation, which is closed.

**Recommendation 10. (FOIA (b)(6), (b)(7)(a), (b)(7)(e) XXXXXXXXXXXXXXXX
XX
XX(FOIA)**

**NMCS D response to Recommendation 10. (FOIA) XXXXXXXXXXXXXXXX
XX
XX
XX
XXXXXXXXXXXXXXXXXXXX (FOIA)**

Naval Audit Service comments on response to Recommendation 10.

Action taken by NMCS D meets the intent of the recommendation, which is closed.

Subj: **GOVERNMENT COMMERCIAL PURCHASE CARD TRANSACTIONS
AT NAVAL MEDICAL CENTER, SAN DIEGO (AUDIT REPORT
N2009-0044)**

Recommendation 11. Establish controls and provide oversight to ensure followup is performed on recommendations for corrective action as required by SECNAV Instruction 5200.35E.

NMCS D response to Recommendation 11. Concur. Command Evaluation and Integrity will increase the frequency of Government Purchase Card reviews from an annual to a semi-annual cycle, and performance and recommendations for corrective action as required by SECNAV Instruction 5200.35E will be met. Command Level Testing and Manager's Internal Control Reviews will also be incorporated. The target completion date is 30 September 2009.

Naval Audit Service comments on response to Recommendation 11.

Actions planned by NMCS D meet the intent of the recommendation, which is considered open until the NMCS D Command Evaluation and Integrity Department has implemented semi-annual Government Purchase Card Reviews, Command Level Testing and Manager's Internal Control Reviews.

Recommendation 12. Establish controls and provide oversight to ensure that, when warranted, the NAVSUP disciplinary guidelines are followed.

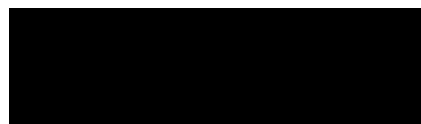
NMCS D response to Recommendation 12. Partially concur. The current APC has applied penalties as deemed appropriate for offenses per NAVSUPINST 4200.99. Applied penalties have ranged from reprimand or written counseling, to suspension, to removal. The completion date was 31 December 2007.

Naval Audit Service comments on response to Recommendation 12. In subsequent discussions with the command, we were told that Command Evaluation and Integrity would provide oversight during their semi-annual reviews as discussed in Recommendation 11. Action planned by NMCS D meets the intent of the recommendation, which is considered open until Command Evaluation and Integrity has completed the first semi-annual cycle. The target completion date is 1 November 2009.

7. Any request for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (b). This report is also subject to followup in accordance with reference (b).

Subj: **GOVERNMENT COMMERCIAL PURCHASE CARD TRANSACTIONS
AT NAVAL MEDICAL CENTER, SAN DIEGO (AUDIT REPORT
N2009-0044)**

8. We appreciate the cooperation and courtesies extended to our auditors during their visit.



XXXXXXXXXXXXXXXXXXXX
Assistant Auditor General
Internal Controls, Contracting, and
Investigative Support Audits

FOIA (b)(6)

Copy to:
UNSECNAV
DCMO
OGC
ASSTSECNAV FMC
ASSTSECNAV FMC (FMO)
ASSTSECNAV IE
ASSTSECNAV MRA
ASSTSECNAV RDA
ASSTSECNAV RDA (DASN (ACQ)
CNO (VCNO, DNS-33, N4B, N41)
CMC (RFR, APMC)
DON CIO
NAVINGEN (NAVIG-4)
BUMED
COMNAVSUPSYSCOM
AFAA (DO)

Enclosure 1:**Status of Recommendations**

Rec. No.	Page No.	Subject	Status ⁶	Action Command	Target Completion Date
1	15	Establish controls and provide oversight to ensure each purchase card transaction has documentation that supports legitimate need and shows that the requirement was properly approved prior to purchase. (In our opinion, this is best achieved with the use of a requisition as required by NAVSUP Instruction 4200.99 Chapter. 1, paragraph 6.e.(4)(f)(1)).	C	Commander, Naval Medical Center, San Diego	3/24/09
2	15	Establish controls and provide oversight to ensure independent receipt and acceptance is properly and completely executed and documented on the DD Form 250 (or on another document such as a vendor invoice) and shows that the purchased item was received by the department that generated the requirement. Proper and complete execution would include comparing what was ordered to what was received and accounting for any differences.	C	Commander, Naval Medical Center, San Diego	3/31/09
3	16	Immediately establish property control for the 26 pilferable items that were not recorded in property record in accordance with DON and BUMED policies.	O	Commander, Naval Medical Center, San Diego	10/01/09
4	16	Immediately task the Command Inspector General to initiate and complete an inquiry into the 40 missing computers, in accordance with DoD FMR, to include the potential HIPPA and PII implications, and report the results to the Naval Audit Service.	O	Commander, Naval Medical Center, San Diego	10/01/09
5	17	Immediately task the Command Inspector General to report PII breaches (in relation to the 40 missing computers), to serve as a point of contact for follow-up actions and individual notification, and to ensure that breach-related information is sent to the DON CIO Privacy Office.	O	Commander, Naval Medical Center, San Diego	10/01/09
6	17	Immediately task the Command Inspector General to conduct an investigation into the missing cameras and Blu Ray disc player, and report the results to the Naval Audit Service.	O	Commander, Naval Medical Center, San Diego	10/01/09

⁶ O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress

Rec. No.	Page No.	Subject	Status ⁶	Action Command	Target Completion Date
7	18	Develop procedures for establishing accountability over ADP equipment and other qualifying property that includes: (1) identification of accountable property items; (2) establishment of a serial number or ECN control process; (3) assignment of responsibilities to those involved in the process; (4) definitive timeframes for establishing accountability (within 7 days of receipt); and (5) continued oversight to ensure the process is working as intended.	C	Commander, Naval Medical Center, San Diego	5/5/09
8	18	Establish controls and provide oversight to ensure cardholders perform monthly billing statement reconciliations in accordance with NMCSD and NAVSUP guidance and maintain documentation that evidences proper and timely completion of those reconciliations.	C	Commander, Naval Medical Center, San Diego	3/31/09
9	19	Establish controls and provide oversight to ensure approving officials review their cardholders' monthly statements and maintain documentation that supports proper and timely AO reviews.	C	Commander, Naval Medical Center, San Diego	5/31/09
10	19	(FOIA (b)(6), (b)(7)(a), (b)(7)(e)) XXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX (FOIA)	C	Commander, Naval Medical Center, San Diego	4/30/08
11	20	Establish controls and provide oversight to ensure followup is performed on recommendations for corrective action as required by SECNAV Instruction 5200.35E.	O	Commander, Naval Medical Center, San Diego	9/30/09
12	20	Establish controls and provide oversight to ensure that, when warranted, the NAVSUP disciplinary guidelines are followed.	O	Commander, Naval Medical Center, San Diego	11/01/09

Enclosure 2:

Pertinent Guidance

Department of Defense Financial Management Regulation (DoD FMR) dated March 2007, Volume 12, Chapter 7. paragraph 070204.A, requires that the first line supervisor conduct an inquiry upon the discovery of loss, damage, destruction, or theft of Government-owned property of any value to determine if the situation warrants a more formal inquiry, i.e., an investigation.

Secretary of the Navy (SECNAV) Instruction 5200.35E “Department of the Navy (DON) Managers’ Internal Control (MIC) Program dated March 2007,” Enclosure 1, Paragraph 24, states that “monitoring the effectiveness of internal controls should occur in the normal course of business. Deficiencies identified through internal review or by external audit should be evaluated and corrected. Monitoring includes establishing followup systems to ensure acceptable performance and prompt correction of control deficiencies.”

Department of the Navy (DON) Chief Information Officer (CIO) Message “Loss of Personally Identifiable Information (PII) Reporting Process” dated February 2008 provides policy and guidance for reporting a known or suspected loss of PII. Commands will designate an official in the chain of command to report PII breaches, to serve as a point of contact for followup actions and individual notifications, and to ensure that breach-related information is sent to the DON CIO Privacy Office.

Naval Supply Systems Command (NAVSUP) Instruction 4200.99, “DON Policies and Procedures for the Operation and Management of the Government-Wide Commercial Purchase Card Program (GCPC)” dated October 2006 provides policy and procedures regarding the use of the GCPC program⁷.

- Chapter 1, Paragraph 6.d.(10)(d) states that the AO shall “ensure proper receipt, acceptance and inspection is accomplished on all items being certified for payment. The AO shall verify the existence of receipt and acceptance documentation.”
- Chapter 1, Paragraph 6.e.(4)(f) requires the CH to forward the monthly card statements with supporting documentation to the AO within 5 working days. Supporting documentation includes a requisition form, showing funding approval; signed sales receipt; purchase log; and any other support to justify the transactions.

⁷ NAVSUP Instruction 4200.99 superseded DON EBUSOPSOFFINST 4200.1A, effective 13 October 2006. This revision had no impact on our review.

- Chapter 2, Paragraph 5 requires the activity to ensure a 3-way separation of function; the same individual does not initiate the requirement, award the purchase action, or receive the materials. If circumstances preclude an individual from performing a single function, then at a minimum, a two-way separation of function must occur for purchase card transactions to protect the integrity of the procurement process. For two-way separation, the individual responsible for the award of a contract or placement of an order shall not perform the receipt, inspection, and acceptance function.
- Chapter 2, Paragraph 8.b. states that the “AO will review each transaction made by the CHs to ensure all supporting documentation is obtained and correct, CH reviews have been completed properly, ensure receipt of property has been properly documented and verify all transactions were necessary and valid Government purchases.”
- Chapter 4, provides disciplinary guidelines for the improper, fraudulent, abusive, or negligent use of the purchase card by civilian and military personnel.

Navy Medicine Publication 5132 CH-1 (Rev. 1-2008), “Equipment Management Manual” dated January 2008 reiterates DON policy and provides equipment management procedures to include budgeting, funding, acquisition, use, maintenance, repair, redistribution, and disposal of equipment used by medical and dental treatment facilities.

- Article 2-1, Paragraph 2. defines Personal Property, a subcategory of General Property, Plant, and Equipment (PP&E), as those items that are used, but not consumed, to produce goods or services in support of DON’s mission. Personal Property includes automated data processing (ADP) equipment.
- Article 8-1, Paragraph 2.b. defines ADP equipment to include lap top computers, computer systems, servers, personal digital assistant, and pocket PCs. Digital cameras are also included in other accountable records.
- Article 8-2, Paragraph 1.a. requires that all PP&E items be assigned a unique numeric identifier within 7 calendar days from the day of receipt. The unique identifier assigned to a piece of equipment shall be maintained as long as it is in use within the activity.

Naval Medical Center San Diego Instruction 4200.6 “Operating Procedures and Policies for Use of Government-Wide Purchase Cards” dated January 2008 provides guidance on policies and procedures associated with the use of the Government

Commercial Purchase Card Program. This guidance is the current Internal Operating Procedures (IOP) for the purchase card program at NMCS D.

- Paragraph 3.a. states that the “CH must complete a Naval Medical Center Purchase Request or provide a copy of the ‘order detail’ report⁸ from DMLSS, and order confirmation sheet, for signature by AO prior to placing an order with the vendor.”
- Paragraph 3.f. lists supporting documentation for each purchase card transaction to include: Order confirmation; purchase request or Order Detail Screen Report; letters of approvals (as applicable); transaction history; order confirmation from vendor (as applicable); sales invoice, DD 250 Material Inspection and Receiving Report; and dispute form (as applicable).
- Paragraph 3.f.(2)(a) lists reconciliation documentation to include: GCPC reconciliation input; CH memo statement; CH statement certification; AO certifying official statement; CH purchase log; and supporting documentation for each purchase card transaction.

⁸ The previous IOP (version 05/23/2005) allowed for the use of a “DMLSS Build, Process, and Submit screen print-out,” whereas the current IOP states “Order Detail Screen Report.” We accepted both documents.

Enclosure 3:

Exhibit A: Order Confirmation

Order Confirmation			
SOS: _____	Call No: _____	Award No: _____	(For Receipt Control Voucher Examiners to fill in)
Vendor/Company Name: _____	Vendor Account Number: _____	Telephone No: _____	
Date Order Given to Vendor: _____	ORIGIN (w/trans charge): \$ _____		
Vendor Point of Contact: _____	DESTINATION: _____		
FOB: (Freight on board): _____	JWOD Screening: _____		
Vendor Confirm Total Price: _____	Item Carried: STK # _____		
	Item Not Carried: INT _____		
Delivery Date: _____	Confirmation: _____		
Remarks: _____	Cardholder Signature/Date _____		
Items Ordered: _____	Authorizing Official Signature/Date _____		
Approving Official Certification and Validation of complete Order Signature/Date _____			
AO INT	JWOD Screening _____	DD 250 _____	Vendor's Invoice _____
Trans Action History			
NMCSD 4200/1 (Rev 08/05)			

Enclosure 4:

Exhibit B: Order Detail Report

Order Detail Screen Report				Customer Id EBDAA03		Date Prepared: 17 Aug 2007		
SOS	Item Id	Item Desc	Total Due In	Qty Req	Adv. Cd	U/P	U/P Price	Extended Price
NBN-TECH DEPOT	S2850417	XEROX GENUINE INK;YELLOW/MAGE		1	2D	PH	\$319.00	\$319.00
Totals For SOS: NBN							\$319.00	\$319.00

Exhibit C: DD Form 250

DD FORM 250, AUG 2000 PREVIOUS EDITION IS OBSOLETE.

Enclosure 6:

Management Response from Commander, Naval Medical Center San Diego



DEPARTMENT OF THE NAVY
NAVAL MEDICAL CENTER
34000 BOB WILSON DRIVE
SAN DIEGO, CALIFORNIA 92134-5008

IN REPLY REFER TO:
7510
Set 00SM4
31 JUL 2009 1209

From: Commander, Naval Medical Center San Diego
To: Assistant Auditor General for Internal Controls and
Command Support Audits (ATTN: Mr. Greg Sinclitico), 10666
Beatty Place, SE, Washington Navy yard, DC 20374-5005

Subj: NAVAL MEDICAL CENTER SAN DIEGO (NMCS D) MANAGEMENT
RESPONSE TO GOVERNMENT COMMERCIAL PURCHASE CARD
TRANSACTIONS AT NAVAL MEDICAL CENTER SAN (AUDIT REPORT
N2008-NMC000-0012.000)

Ref: (a) NAVAUDSCV Memorandum 7510 N2008-NMC000-0012.000
dated 02 July 2009

(b) SECNAVINST 7510 (DON Internal Audit)

Encl: (1) Status of Recommendations
(2) NMCS D Management Response

1. Per references (a) and (b), a Status of Recommendations and
Management Response to findings related to Government Commercial
Purchase Card Transactions at Naval Medical Center San Diego
(Audit Report N2008-NMC000-0012.000) are provided in enclosures
(1) and (2).

2. My point of contact is [REDACTED] who may be reached at
[REDACTED] or e-mail at
[REDACTED]

FOIA (b)(6)

FOIA (b)(6)

~~FOR OFFICIAL USE ONLY~~ - NMCS MANAGEMENT COMMENTS

Subj: GOVERNMENT COMMERCIAL PURCHASE CARD
TRANSACTIONS AT NAVAL MEDICAL CENTER SAN DIEGO
(AUDIT REPORT N2008-NMC000-0012.000)

Status of Recommendations

Rec. No.	Page No.	Subject	Status ¹	Action Command	Target Completion Date
1	16	Establish controls and provide oversight to ensure each purchase card transaction has documentation that supports legitimate need and shows that the requirement was properly approved prior to purchase. (In our opinion, this is best achieved with the use of a requisition as required by NAVSUP Instruction 4200.99 Chapter. 1, paragraph 6.e.(4)(f1).	C	Commander, Naval Medical Center, San Diego	24 MAR 09
2	16	Establish controls and provide oversight to ensure independent receipt and acceptance is properly and completely executed and documented on the DD Form 250 (or on another document such as a vendor invoice) and shows that the purchased item was received by the department that generated the requirement. Proper and complete execution would include comparing what was ordered to what was received and accounting for any differences.	C	Commander, Naval Medical Center, San Diego	31 MAR 09
3	16	Immediately establish property control for the 26 pilferable items that were not recorded in property record in accordance with DON and BUMED policies.	O	Commander, Naval Medical Center, San Diego	01 OCT 09
4	16	Immediately task Command Inspector General to initiate and complete an inquiry into the 40 missing computers, in accordance with DOD FMR, to include the potential HIPPA and PII implications, and report the results to the Naval Audit Service.	O	Commander, Naval Medical Center, San Diego	01 OCT 09
5	16	Immediately task Command Inspector General to report PII breaches, to serve as a point of contact for follow-up actions and individual notification, and to ensure that breach-related information is sent to the DON CIO Privacy Officer.	O	Commander, Naval Medical Center, San Diego	01 OCT 09

¹ O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress

1

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Enclosure (1)

Management response, Enclosures (1) and (2) do not contain information that should be held exempt under the Freedom of Information Act, except where noted. Therefore, we have struck the "For Official Use Only" from the enclosures.

~~FOR OFFICIAL USE ONLY~~ NMCS D MANAGEMENT COMMENTS

Subj: GOVERNMENT COMMERCIAL PURCHASE CARD
TRANSACTIONS AT NAVAL MEDICAL CENTER SAN DIEGO
(AUDIT REPORT N2008-NMC000-0012.000)

Rec. No.	Page No.	Subject	Status ¹	Action Command	Target Completion Date
6	16	Immediately task the Command Inspector General to conduct an investigation into the missing cameras and Blu Ray disc player and report the results to the Naval Audit Service.	O	Commander, Naval Medical Center, San Diego	01 OCT 09
7	17	Develop procedures for establishing accountability over ADP equipment and other qualifying property that includes: (1) identification of accountable property items; (2) establishment of a serial number or ECN control process; (3) assignment of responsibilities to those involved in the process; (4) definitive timeframes for establishing accountability (within 7 days of receipt); and (5) continued oversight to ensure the process is working as intended.	C	Commander, Naval Medical Center, San Diego	31 MAR 09
8	17	Establish controls and provide oversight to ensure cardholders perform monthly billing statement reconciliations in accordance with NMCS D and NAVSUP guidance and maintain documentation that evidences proper and timely completion of those reconciliations.	C	Commander, Naval Medical Center, San Diego	19 MAR 09
9	17	Establish controls and provide oversight to ensure approving officials review their cardholders' monthly statements and maintain documentation that supports proper and timely AO reviews.	C	Commander, Naval Medical Center, San Diego	SEP 07
10	17		C	Commander, Naval Medical Center, San Diego	31 JUL 09
11	17	Establish controls and provide oversight to ensure follow-up is performed on recommendations for corrective action as required by SECNAV Instruction 5200.35E.	C	Commander, Naval Medical Center, San Diego	01 OCT 09
12	17	Establish controls and provide oversight to ensure that when warranted, the NAVSUP disciplinary guidelines are followed.	C	Commander, Naval Medical Center, San Diego	DEC 07

FOIA (b)(6), (b)(7)(a), (b)(7)(e)

¹ O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress

~~FOR OFFICIAL USE ONLY~~ NMCS D MANAGEMENT COMMENTS

Subj: GOVERNMENT COMMERCIAL PURCHASE CARD
TRANSACTIONS AT NAVAL MEDICAL CENTER SAN DIEGO
(AUDIT REPORT N2008-NMC000-0012.000)

Recommendation 1. Establish controls and provide oversight to ensure each purchase card transaction has documentation that supports legitimate need and shows that the requirement was properly approved prior to purchase. (In our opinion, this is best achieved with the use of a requisition as required by NAVSUP Instruction 4200.99 Chapter. 1, paragraph 6.e.(4)(f)(1).)

Management Comments: Concur. Exhibit B (Order Detail Screen Report) has been replaced with two approved forms that are required to be submitted as part of the Card Holder's (CH) and Approving Official (AO) monthly purchase card transaction file.

The two forms (NMCS D Form 4270 (NMCS D Purchase Request) and DD Form 1155 (Order for Supplies or Services)) "mirror" the approved formats as required by NAVSUPINST 4200.99 Chapter. 1, paragraph 6.e. (4) (f) (1).) to ensure internal administrative controls are in place, which provide oversight and supports the source documentation requirement that a purchase meets the criteria of "legitimate need" and is "mission essential", prior to approval.

This policy change was introduced to all program participants (CH's and AO's) during the Mandatory Quarterly Supply Petty Officer meeting of March 2009. A written notice reiterating this change was also distributed.

Additional internal administrative controls in place include:

- CH and AO monthly purchase card transaction files are screened for supporting documentation in accordance with NAVSUPINST 4200.99 by the APC Support Staff.
- Monthly CH and AO training conducted by the APC that stresses and re-emphasizes the importance of proper documentation and legitimacy of all purchase card transactions as required by NAVSUPINST 4200.99.

Completion Date: March 24, 2009

Recommendation 2. Establish controls and provide oversight to ensure independent receipt and acceptance is properly and completely executed and documented on the DD Form 250 (or on another document such as a vendor invoice) and shows that the purchased item was received by the department that generated the requirement. Proper and complete execution would include comparing what was ordered to what was received and accounting for any differences.

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Enclosure (2)

~~FOR OFFICIAL USE ONLY~~ - NMCS D MANAGEMENT COMMENTS

Subj: GOVERNMENT COMMERCIAL PURCHASE CARD
TRANSACTIONS AT NAVAL MEDICAL CENTER SAN DIEGO
(AUDIT REPORT N2008-NMC000-0012.000)

Management Comments: Concur. Material Management Department (MMD) has ensured implementation and adherence to SECNAVINST 7320.10A, NAVMED P-5132 and NAVMEDCEN SDIEGOINST 6700.7B in order to meet the aforementioned recommendation of establishing controls for independent receipt/acceptance, proper and complete execution and documentation. Specifically, utilizing DD Form 250 (for receipt of equipment valued at \$3K and below), DD Form 1155 (for equipment valued at \$3k and above) and DD Form 1149 (for outside agency and transfer equipment documentation).

Additional controls include:

- Receiving Branch (RB), MMD comparison of Defense Medical Logistics Standard Support (DMLSS) generated DD 250 (Column 17) to either the vendor packing slip or vendor invoice for accuracy. If inaccurate quantities are found, RB documents discrepancies in DD 250 (Column 17).

- CH comparison of DMLSS generated DD 250 (Column 17) to either the vendor packing slip or vendor invoice for accuracy. (If inaccurate quantities are found, CH documents discrepancies in DD 250 (Column 17), contacts vendor to reconcile difference and documents within DMLSS).

- Equipment Management Department barcodes and records in DMLSS for accountability within seven days as required by SECNAVINST 7320.10A

- Directorate/Department CH's sign for equipment and add to their on hand inventory.

Completion Date: March 2009

Recommendation 3. Immediately establish property control for the 26 pilferable items that were not recorded in property record in accordance with DON and BUMED policies.

Management Comments: Concur. Due to the tremendous amount of miscommunication and misunderstanding that occurred between Naval Audit Service representatives and NMCS D Materiel Management staff as to specific proper record documentation initially requested, we believe that the 26 pilferable items which were not recorded in property records in accordance with DON and BUMED policies should be

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included in the Command Inspector General Inquiry (as referenced in Recommendations 4 through 6 of this report).

Completion Date: 01 October 2009

Recommendation 4. Immediately task the Command Inspector General to initiate and complete an inquiry into the 40 missing computers, in accordance with DOD FMR, to include the potential HIPPA and PII implications, and report the results to the Naval Audit Service.

Management Comments: Concur. NMCSO Command Inspector General has initiated an inquiry (Case # 2009-08) into the 40 missing computers, in accordance with SECNAVINST 5370.5B and DOD FMR, to include the potential HIPPA and PII implications, and report the results to the Naval Audit Service. This inquiry will also encompass within its scope, Recommendation 3 (26 pilferable items which were not recorded in property records).

Completion Date: 01 October 2009

Recommendation 5. Immediately task the Command Inspector General to report PII breaches, to serve as a point of contact for follow-up actions and individual notification, and to ensure that breach-related information is sent to the DON CIO Privacy Officer.

Management Comments: Concur. NMCSO Command Inspector General has initiated an inquiry (Case # 2009-08) to report PII breaches, to serve as a point of contact for follow-up actions and individual notification, and to ensure that breach-related information is sent to the DON CIO Privacy Officer.

Completion Date: 01 October 2009

Recommendation 6. Immediately designate Command Inspector General to conduct an investigation into the missing cameras and Blu Ray disc player and report the results to the Naval Audit Service.

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Management Comments: Concur. NMCSO Command Inspector General has initiated an inquiry (Case # 2009-08) to conduct an investigation into the missing cameras and Blu Ray disc player and report the results to the Naval Audit Service.

Completion Date: 01 October 2009

Recommendation 7. Develop procedures for establishing accountability over ADP equipment and other qualifying property that includes: (1) identification of accountable property items; (2) establishment of a serial number or ECN control process; (3) assignment of responsibilities to those involved in the process; (4) definitive timeframes

for establishing accountability (within 7 days of receipt); and (5) continued oversight to ensure the process is working as intended.

Management Comments: Concur. NMCSO has developed procedures (NAVMECEN SDIEGOINST 6700.7B) for establishing accountability over ADP equipment and other qualifying property as follows:

- The Information Management Department (ITMD) will review requests for information systems and equipment. It will recommend approval, and when required, forward to higher echelon authority for approval. It is primarily responsible for planning and budgeting of information system requirements and will adhere to the guidance provided by the Naval Medical Information Management Center (NMIMC).

- The tracking and accountability of information systems and equipment is a joint responsibility of EM and ITMD and will be performed within 7 days of receipt as required by SECNAV and BUMED guidelines.

a. Only information systems and equipment with a unit cost of \$5,000 and above will be tracked and maintained in DMLSS. The exception to this rule is equipment that has been deemed pilferable which will be tracked in DMLSS regardless of dollar value.

b. Desktop computers and monitors that have a unit cost below \$5,000 will be entered and maintained in DMLSS to allow for higher echelon visibility of command assets. Day-to-day tracking and accountability of these items is the responsibility of ITMD.

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c. New desktop computers and monitors will be assigned barcodes by ITMD. They will also be assigned a DMLSS barcode number for internal use only. This will allow for cross-referencing between the DMLSS barcode and ITMD's barcode numbers.

d. Information Management Department will provide EM with a monthly report to be used for reconciliation of data between DMLSS and ITMD's electronic tracking system.

Completion Date: March 2009

Recommendation 8. Establish controls and provide oversight to ensure cardholders perform monthly billing statement reconciliations in accordance with NMCS D and NAVSUP guidance and maintain documentation that evidences proper and timely completion of those reconciliations.

Management Comments: Concur. NMCS D has implemented controls in order to provide oversight to ensure cardholders perform monthly billing statement reconciliations in accordance with NMCS D and NAVSUP guidance and maintain documentation that evidences proper and timely completion of those reconciliations.

Specific controls include:

- The Agency Program Coordinator (APC) notifies CH's and AO's of their respective reconciliation and certification due dates prior to the end of each billing cycle and queries all cardholder accounts to insure timely reconciliation and certification by both the CH and the AO.

- The APC conducts "status" checks on late certifications. Once identified as late, accounts are immediately suspended, requiring a written statement of explanation from the CH and AO and endorsed by the respective Department Head in order for reinstatement to occur.

- Both the signed statement and written counseling documenting the late certification and re-training of the NAVSUPINST 4200.99 (requirement for timely certification) are both filed in the respective program participant's training file and monitored for repeated occurrences of this or of any kind. Written counseling further advises that frequent occurrences or incessant patterns of disregard for program policy, will result in permanent removal from the purchase card program.

Completion Date: March 2009

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Additionally, to mitigate interest and penalties for late certification, AO's are apprised of their responsibility to certify the billing statement during the CH's absence. CHs are apprised of their responsibility to advise their AO's of scheduled absences; perform a preliminary reconciliation and certification of their billing statement; and submit their billing cycle reconciliation package to their respective AO for certification when the statement becomes available. AO's are also advised to have an alternate AO on file as a safeguard in the event of a scheduled or unscheduled absence.

Completion Date: July 2009

Recommendation 9. Establish controls and provide oversight to ensure approving officials review their cardholders' monthly statements and maintain documentation that supports proper and timely AO reviews.

Management Comments: Concur. NMCS D has implemented controls in order to provide oversight to ensure approving officials review their cardholders' monthly statements and maintain documentation that supports proper and timely AO reviews.

Specific controls include:

- Effective August 2008, Exhibit A (Order Confirmation sheet) was replaced with "Cardholder GCPC Order Checklist". The Cardholder GCPC Order Checklist, which reiterates NAVSUP 4200.99 "Key Control Processes" that are to be performed by the Card Holder, Approving Official and Authorizing Official is required to be completed for each purchase card transaction.

- Key Control Processes captured:
 - CH's and AO's signature acknowledging and certifying that the purchase card transaction is valid.
 - Approval signature by an Authorizing Official, such as a Department Medical Administration Officer, or Approving Official.
 - Purchase meets the necessary expense rule and does not exceed the Government's minimum need.

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- Purchase card transaction is in accordance with NAVSUPINST 4200.99 and the Internal Operating Procedures.

Additional note:

Although the "Cardholder GCPC Order Checklist" was incorporated into our GCPC program in August 2008, it has since been revised in response to the preliminary findings of this Naval Audit Service Audit. A second revision was completed in May 2009, based on findings reported by the Procurement Performance Management Assessment Program (PPMAP) Review conducted by Fleet & Industrial Supply Center San Diego (FISCSD) under the direction of Naval Supply Systems Command (NAVSUP) on October 27, 2008 through November 14, 2008.

- Each billing cycle reconciliation package requires a signed and dated "Statement Certification" from both the CH and the AO. This statement certifies that monthly billing statements are complete and accurate in accordance with NAVSUPINST 4200.99 and the Internal Operating Procedures. The "Statement Certification" is generated electronically via CitiDirect during the certification process and captures the date of certification.

- Cardholder billing cycle reconciliation packages are collected and audited by one of four Agency Program Coordinator (APC) Support Staff members. The APC Support Staff flag incomplete billing cycle reconciliation packages and contact the respective CH and/or AO to remedy the discrepancy. Participants are allotted one billing cycle or 30-days to correct discrepancies without penalty, after which, their respective purchase card account is suspended from future purchasing and requires a statement explaining the delay signed by the CH, AO, and respective Department Head for reinstatement. Further, their respective training files are documented and monitored for repeat occurrences of this or of any kind.

- Written counseling further advises that frequent occurrences or incessant patterns of disregard for program policy, will result in permanent removal from the purchase card program.

- The APC generates a Cycle Activity Report at the end of each billing cycle period to identify purchase card accounts with activity during the respective billing cycle. The report is initialed and dated by the APC Support Staff upon receipt of CH reconciliation package, and is used to cross-reference packages submitted at the end of the reconciliation period prior to review by the APC and archival. Once reconciliation packages have been reviewed by APC Support Staff for completeness and discrepancies, if applicable, have been remedied, the files are labeled and organized by CH last name,

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billing cycle, cross-checked by the APC against the Cycle Activity Report and archived.
(Archives are maintained IAW the NAVSUPINST 4200.99 for 6 years and 3 months).

Completion Date: August 2008

Recommendation 10.

[REDACTED]

FOIA (b)(6), (b)(7)(a), (b)(7)(e)

Management Comments:

[REDACTED]

FOIA (b)(6), (b)(7)(a), (b)(7)(e)

[REDACTED]

FOIA (b)(6), (b)(7)(a), (b)(7)(e)

[REDACTED]

FOIA (b)(6), (b)(7)(a), (b)(7)(e)

Completion Date: December 2007 and April 2008

Recommendation 11. Establish controls and provide oversight to ensure follow-up is performed on recommendations for corrective action as required by SECNAV Instruction 5200.35E.

Management Comments: Concur. By increasing the frequency of Government Purchase Card reviews performed by NMCS D's Command Evaluation and Integrity

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Department, from an annual to a semi-annual cycle, we are confident that the controls, oversight, and proper follow-up is performed on recommendations for corrective action as required by SECNAV Instruction 5200.35E will be met. Additionally, we will incorporate Command Level Testing and Manager's Internal Control Reviews to assist in sustaining this recommendation

Completion Date: September 2009

Recommendation 12. Establish controls and provide oversight to ensure that, when warranted, the NAVSUP disciplinary guidelines are followed.

Management Comments: NMCSO partially concurs with the recommendation as we have consistently applied the varying degrees of penalties deemed appropriate for the offense(s) per NAVSUPINST 4200.99. Applied penalties have ranged from reprimand or written counseling, to suspension, to removal. The current APC has applied the aforementioned disciplinary actions, to include, counseling (verbal and written), retraining, suspension of purchase card account, re-training, as evidence by the removal of seven CH's and AO's for failure to comply with purchase card policy during her tenure.

These infractions included: late billing statement certification, untimely completion of mandatory Program Audit Tool (PAT) reviews, failure to screen and use the mandatory sources, exceeding the monthly billing cycle limit, and missing support documentation.

Most importantly, during the current APC's two year tenure, there has not been an instance or has there been known evidence to suggest a flagrant attempt by a program participant to defraud the government.

Completion Date: December 2007

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